

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Great Northern Utilities, Inc.	:	
	:	
Proposed general increase in water rates. (Tariffs filed on December 22, 2010)	:	11-0059
	:	
Camelot Utilities, Inc.	:	
	:	
Proposed general increase in water and sewer rates. (Tariffs filed December 30, 2010)	:	11-0141
	:	
Lake Holiday Utilities Corporation	:	
	:	
Proposed general increase in water rates. (Tariffs filed December 30, 2010)	:	11-0142 (Cons.)

PROPOSED ORDER ON REHEARING

By the Commission:

I. Procedural History

On November 8, 2011, the Illinois Commerce Commission (“Commission”) issued a Final Order in the consolidated rate case proceedings captioned above. The Camelot Homeowner’s Association (the “Association”) and the Illinois Attorney General (the “Attorney General” or the “AG”) timely filed Applications for Rehearing on December 7, 2011 and December 8, 2011, respectively. On December 21, 2011, the Commission granted both Applications for Rehearing on one issue, the mitigation of rate shock.

On rehearing, an evidentiary hearing was convened before a duly authorized Administrative Law Judge on February 29, 2012 at the Commission’s offices in Chicago, Illinois. At the evidentiary hearing, Great Northern Utilities, Inc. (“Great Northern”), Camelot Utilities, Inc. (“Camelot”) and Lake Holiday Utilities Corporation (“Lake Holiday”) (collectively, the “Companies” or the “Utilities”), Staff of the Commission (“Staff”), the Association and the AG appeared and presented testimony. The record was subsequently marked “Heard and Taken”.

Testifying on behalf of the Companies was Dimitry Neyzelman, Senior Regulatory Accountant for Utilities, Inc. (“UI”) and its subsidiaries. Mr. Neyzelman adopted the direct testimony submitted by Lena Georgiev, who had submitted testimony

as a Regulatory Manager for UI and its subsidiaries. Philip Rukosuev, Rate Analysts in the Rates Department of the Financial Analysis Division of the Commission, testified on behalf of Staff. The AG presented Michael Brosch, a Regulatory Consultant for the firm Utilitech, Inc. as a witness.

The parties filed Initial Briefs on Rehearing on March 16, 2012 followed by simultaneous Reply Briefs on Rehearing on March 30, 2012.

II. Phase-In Plans

A. AG's Position

The AG argues that a rate phase-in plan is necessary to mitigate the effects of rate shock on Great Northern and Camelot customers. (AG Initial Brief at 7)¹. AG's witness Mr. Brosch testified that with respect to Great Northern and Camelot, the magnitude of the approved increases is unusually great, requiring a phase-in approach to enable customers to accommodate and accept the authorized revenue levels. (AG Ex. 2.0 at 3). The AG avers that without a phase-in plan, the shareholders will be advantaged at ratepayer expense. (AG Initial Brief at 7).

The AG proposes a rate phase-in plan to address rate shock. The AG argues that the proposed plan properly balances ratepayer and Company interests. (AG Ex. 2.0 at 15). The AG explains that the proposed plan will increase rates either by \$10 per month per year (equaling \$120 per year) or 20% of an average bill per year, whichever is greater. (AG Ex. 2.0 at 9). Each year the Companies can defer for future recovery the amount of revenue that exceeds these guidelines. The phase-in will take 9 years in the case of Great Northern, 10 years in the case of Camelot (water), and 6 years in the case of Camelot (sewer). (AG Ex. 2.0 at 14-15, AG Ex. 2.3). The AG further explains that the plan will include a 6.65% carrying charge on the net of the tax regulatory asset balance containing deferred Operating and Maintenance ("O&M") expenses for which rate recovery has been delayed. (AG Ex. 2.0 at 13). According to the AG, the proposal recognizes the tax benefits associated with the deferred revenue collection due to the fact that the Companies will incur deductible expenses in advance of the collection of revenue for that period.

The AG prefers the plan proposed by its witness Mr. Brosch but it does not object to the phase-in plan proposed by Staff. According to the AG, its proposal has the advantage of smoothing out the rate increases in a more gradual way, with steady increases over the time necessary to reach the authorized revenue levels. The AG argues the phase-in periods in its plan are not unreasonable in light of the long length of time since the Companies' last rate cases. Although the increases will be steeper in the early years under Staff's proposed phase-in plan, the AG recognizes the higher caps and shorter phase-in periods in Staff's proposed plan will result in lower total customer bills in the longer term. (AG Draft Proposed Order (March 30, 2012) at 9).

¹ All references to briefs, exhibits and transcript refer to the transcript, briefs and exhibits on rehearing.

The AG contends that the Companies' assertion that the AG's plan constitutes a rate reduction should be rejected because it is untrue. The AG states that the Companies failed to provide any evidence or explanation to support this assertion. (AG Reply Brief at 3). The AG posits that although the phase-in rates are by definition less than the rates would be without the phase-in plan, the plans proposed by the AG and Staff carefully account for the entire revenue requirement approved by the Commission and both plans assure that the deferred revenue is recovered with interest. Moreover, the AG argues that there is no recommendation that the revenue requirement be changed based on information discovered at a later time, no party has suggested a refund for the payments made by customers during the rehearing period and a phase-in is not equivalent to a refund of previously approved rates. (AG Reply Brief at 10). The AG avers that on the contrary, either proposed phase-in plan will provide a rate mechanism that will recover the total revenue requirement approved over the phase-in period. (*Id.*). Accordingly, the AG asserts that there is no change in the basic cost of service principles.

The AG also takes issue with Staff's assertion that the AG's proposed plan should be rejected because it almost exclusively benefits ratepayers. The AG contends that this argument ignores the fact that both of the proposed plans provide carrying charges or interest on deferred revenues. Further, both of the plans according to the AG, assure that in the long term, the Companies' rates include recovery of the full revenue requirement and the cost of capital for the deferred period. (*Id.* at 4).

The AG notes that the Companies and Staff did not reference any specific record evidence to support their argument that a rate phase-in plan will deny the Companies the revenue they need to operate and invest in their systems. (AG Reply Brief at 5). The AG further notes that Staff and the Companies failed to identify any specific function or investment that will have to be postponed or foregone if a phase-in plan is adopted. The AG maintains that this argument is not credible since a significant portion of the revenue requirement approved is made up of rate case expenses which are not ongoing and do not represent current out-of-pocket expenses that will need to be curtailed in response to a phase-in plan. (*Id.* at 6). Moreover, the AG argues that a phase-in will not cause a great deal of harm to the Companies since they are part of a larger organization that makes investment decisions centrally and has been capable of continuing to run the Companies without rate increases, during the past 13 years in the case of Great Northern and 18 years in the case of Camelot, when their rates were less than their out-of-pocket expenses, allocated expenses, and investment needs.

Additionally, the AG notes that other UI subsidiaries have adopted phase-in plans in other jurisdictions for increases considerably less than those in these dockets. Specifically, UI subsidiaries have been ordered to implement rate phase-in plans in Tennessee to address rate increases of 70% and in Maryland to address rate increases of 38% to 47% for water services and 70% for sewer services. (AG Initial Brief at 5).

The AG argues that failure to adopt a phase-in plan will create terrible hardship for ratepayers, while ignoring the Companies' failure to request a reasonably sized increase, the regulatory principle of gradualism, and the serious disruption to customers' access to a basic necessity. (AG Reply Brief at 7). It is the AG's view that the Companies' and Staff's position against a phase-in plan would have the Commission resolve its obligation to balance both the interests of customers and the Companies entirely in favor of the Companies. The AG asserts that approving a phase-in plan will allow the Commission to appropriately balance the customers' and the Companies' interests.

B. Staff's Position

Staff contends that the Commission should reject the arguments by the AG and the Association to implement a phase-in of rates in this proceeding. Staff argues that the Commission should instead accept Staff's primary recommendation not to implement a rate phase-in plan at this time. (Staff Initial Brief at 5). However, Staff maintains that if the Commission deems that a phase-in plan should be implemented, it should adopt the alternative phase-in plan proposed by Staff, Rider BSA (Bill Stabilization Adjustment), which is patterned after Commonwealth Edison Company's ("ComEd") Rider RRS approved in *Commonwealth Edison Company*, Docket No. 06-0411, Order (December 20, 2006) ("ComEd Rate Stabilization Order") with certain modifications. (*Id.*).

According to Staff, there are good arguments against moving forward with any kind of mitigation plan, including Staff's alternative plan. Staff asserts that a public utility is entitled under the Public Utilities Act ("Act") to recover its cost of providing utility service and a public utility should not be compelled to furnish service at a loss. (*Id.* at 6). Staff argues the long term consequences of any phase-in plan are fiscally unsound and any such plan should be rejected by the Commission because it: (a) represents a fundamental departure from the Commission's reliance on cost-based rates development; (b) may not allow the Companies to timely recover their revenue requirement, which may result in a level of revenues insufficient to operate and maintain the Companies' water and sewer systems in a safe, adequate and reliable manner; and (c) forces a customer who defers rate increases to pay lower rates today at a cost of much higher rates in the future, particularly because they must pay back all deferred rate increases with interest. (*Id.* at 5, Staff Ex. 18.0 REV at 13).

Although Staff's primary recommendation is that the Commission reject a phase-in plan, Staff acknowledges the only rate mitigation tool that can be utilized in this case is a phase-in. Staff explains that the other avenues for mitigation are limited in this case and given the level of the increases, the resulting high bill impacts cannot be ameliorated through traditional rate mitigation methods. (*Id.* at 4). For example, Staff notes that the impact of these increases cannot be spread over a large customer base because the Companies' service areas are small. Nor can the bill impacts be mitigated by moving costs to other customer classes since the Companies largely have just one customer class which is residential.

Staff does not agree with the Companies' argument that a phase-in plan is an unconstitutional taking (or confiscatory). (Staff Reply Brief at 6). Staff notes that although the Companies aim this argument primarily at the AG's proposed phase-in plan, it is also at least to some degree directed towards Staff's alternative phase-in proposal. Staff argues a constitutional taking occurs in the public utility context only when the rates are so unjust as to be confiscatory or when the government's action destroy[s] the value of the property for all purposes for which it was acquired, and in doing so practically deprives the owner without due process of law. (*Id.* at 6, See *Duquesne Light Co. v. Barasch*, 488 U.S. 299, 307 (1989)). Staff maintains that neither of the phase-in plans propose rates "so unjust" as to be confiscatory. Under both proposed phase-in plans, the AG and Staff propose reasonable carrying charges; thus, the Companies can hardly consider this to be "uncompensated." Staff notes that while it agrees that the Companies should recover their Commission-approved revenue requirement immediately, Staff does not agree that a Commission-approved phase-in plan would be an unconstitutional taking. (*Id.* at 7).

Under Staff's proposed Rider BSA, rate caps will be implemented for the first three years of the phase-in plan but at different levels. The increase in an average customer bill will be capped at 40%, 25% and 10% below the uncapped bill levels per year in each of the years of 2012, 2013 and 2014. (Appendix A to Staff Initial Brief). In each stage of the plan, the basic facility charges and usage charges can never be lower than the rates in effect prior to the Final Order. Participation in the plan will be voluntary and apply only to customers who opt-in by completing an enrollment form and sending it to the Companies. (*Id.*). Staff states that customers will be able to enroll in the plan within 90 days or another agreed upon time interval following issuance of this Order. Only customers of record at the conclusion of this signup window will be eligible to participate in the plan. According to Staff, customers who choose to participate in the plan will receive credit on their bills for amounts above the rate caps but no credit would be received for bills that fall below the rate caps. (*Id.*). Credits will be applied to bills only on a going-forward basis subsequent to enrollment. Staff explains that the Companies will track both the amount of customers' bills that are deferred via credits and the repayments of such amounts on an individual customer basis. The Companies will collect the deferral amounts during the last three years of the plan, 2015 through 2017, with a final adjustment to a participating customer's final bill if necessary. (*Id.*).

Staff asserts that participating customers who discontinue their accounts, but provide another service address to which they are immediately relocating within the Companies' service territory and establish a new account with the Companies, will have the option to transfer the balance of their deferral amounts from their old account to their new account and continue to participate in the plan. (*Id.*). Staff indicates participating customers who discontinue their accounts, but do not provide such other service address, establish such a new account, and choose to make such a transfer, will see the entire balance of deferral amounts due with the final bill. Customers will be able to terminate their participation in the plan voluntarily, with the balance of deferral amounts due immediately. The deferral amounts will accrue carrying charges at a 3.20% annual rate. The Companies will be required to develop appropriate education and enrollment

materials for customers. Staff also states that a compliance filing outlining the education plan for customers, including the outreach efforts, billing issues and timelines will be provided by the Companies to the Commission for approval within 45 days of the issuance of this Order. (*Id.*).

Staff avers that its plan is preferable to the AG's plan and it points out that none of the parties object to it being implemented if the Commission determines a phase-in plan is necessary. Moreover, Staff expresses concern about the emphasis the AG's plan almost exclusively puts on the welfare of the Companies' customers at the expense of the Companies. (Staff Initial Brief at 11). According to Staff, the most obvious problem with the AG's plan is that the rates will no longer be based on cost principles, and therefore will suffer the deficiencies inherent in that misallocation, such as inappropriate price signals, detriments to conservation, and severe revenue instability to the Companies. (*Id.* at 14). Staff points out that its proposed plan has a much shorter deferral period and the rate caps are positioned at a much higher level for each of the deferral years. However, it is Staff's position that the AG's proposal will not allow for the full recovery of the approved revenue requirement of any of the Companies until, potentially, many years (9 years for Great Northern, 10 years for Camelot (water), and 6 years for Camelot (sewer)) from the issuance of the Commission's order in this proceeding. Thus, Staff asserts the AG's phase-in proposal may result in a level of revenues insufficient to operate and maintain the Companies' water and sewer systems in a safe, adequate, and reliable manner. (*Id.* at 13, Staff Ex. 18.0 REV. at 8).

In contrast, Staff notes that its higher rate caps will cause the amount of the deferrals to be lower (over a period of three years) and the potential for adverse bill impacts in recovery years four through six to be lower as well. Thus, although under both plans ratepayers will be afforded some protection from the full effect of the approved rate increases during the deferral period, under proposed Rider BSA, Staff maintains the adverse impacts of the phase-in plan will be less when the caps are lifted. Finally, Staff believes that by utilizing higher caps, the deferred costs will be recovered over a much shorter period than is typical for amortization of utility plant investment. (Staff Initial Brief at 13, Staff Ex. 17.0 REV. at 21-22). For these reasons, Staff contends that its alternative plan places less future financial stress on the Companies' customers than the AG's plan, moves rates towards cost in an orderly fashion, is fairer to both the Companies and their customers, and addresses the concerns that Staff expressed about the AG's plan.

C. Association's Position

The Association urges the Commission to adopt a rate phase-in plan to alleviate the financial burden placed on the Companies' customers. The Association posits that the increases approved in the Commission's Final Order are having a devastating impact on residents in Camelot's service area, particularly those out of work, seniors and retirees on fixed incomes. (Association Initial Brief at 5, CHA Ex. 3.0 at 1, 4.0 at 1, 7.0 at 1, 8.0 at 1). Many of which, in the Association's view, have made substantial

sacrifices in order to attempt to pay their increased bills. (Association Initial Brief at 5-6, CHA Ex. 6 at 1, 9.0 at 1).

The Association asserts that due to the varying needs and financial situation of Camelot residents, the Association does not take a formal position on which of the plans the Commission should adopt but rather that the Commission should adopt one of the plans. (Association Initial Brief at 8). However, the Association notes that Staff's proposal seems to reach an equitable balance between providing immediate relief of rate shock to customers and minimizing the extra costs customers would incur in the future for the deferral.

According to the Association, the Companies' argument that the phase-in plans are illegal and confiscatory, resulting in retroactive ratemaking, are wholly without merit and ignore the Commission's broad statutory powers on rehearing. (Association Reply Brief at 1). The Association states that the Commission retains a full panoply of options on rehearing and pursuant to its statutory authority, the Commission may rescind, alter, or amend any part of its previous Final Order in order to effectuate the purpose for which it granted rehearing. (*Id.* at 2). Moreover, the Association avers that the Commission may remedy any unjust application of the rates in accordance with its authority under Section 9-250 of the Act.

D. Companies' Position

The Companies concur with Staff's primary recommendation that the Commission should refrain from approving a rate phase-in plan. The Companies contend that if the Commission decides to implement a phase-in plan, the Commission should reject the plan proposed by the AG and adopt Staff's proposal with certain modifications discussed below.

The Companies argue the plans proposed by the AG and Staff will only exacerbate the affordability of utility service for their customers. (Companies Reply Brief at 5). The Companies aver that phased-in rates conflict with the Commission's statutory goal of implementing cost based rates. Phased-in rates, by their nature, are below the cost of service which encourages inefficient consumption of water and sewer service according to the Companies. The Companies note that rates that are not cost based will also result in intergenerational inequities in which future customers will be required to subsidize the consumption of current customers. Moreover, the Companies argue that under either phase-in proposal, there is a substantial likelihood that cost increases since 2009 will result in the need for future rate relief that would be "pancaked" on top of the deferred recovery of past costs, making the higher future utility bills even more difficult to pay since the bills will include new costs plus the postponed costs from past years. (*Id.*). For these reasons, the Companies assert that allowing current customers to avoid the reality of the current cost to provide utility service provides a temporary false sense of relief that will make rate decisions even more difficult and unpalatable in the future.

The Companies assert that a phase-in plan will create revenue shortfalls which will further inhibit the Companies' ability to pay for the investments and expenses needed to provide water and sewer service since the Companies depend on the rates to meet all their financial obligations to provide service. (Companies Initial Brief at 2). As a result, the Companies argue that if a phase-in plan is implemented, they will have no choice but to make immediate decisions about matters such as where to cut back on system repairs, maintenance, replacements and upgrades needed to maintain service quality and minimize interruptions. Such measures will cause service degradation and increase the costs of bringing the system back to standard at a later time. (*Id.*). The Companies note that unlike larger utilities, the Companies do not have a commercial and industrial base providing a revenue stream to finance current operations during a phase-in of rates for residential customers.

The Companies also argue that the focus by the AG and the Association on the timing of the Companies' request for rate increases is irrelevant since the Commission found the Companies' costs to provide service to be reasonable and necessary. (*Id.* at 6). Additionally, the Companies argue that the need for rate relief reached a tipping point after they were compelled to make recent large investments to replace and maintain the aging infrastructure which undercuts the argument that the rates could and should have been increased sooner and more gradually. The Companies posit that the rate increases are magnified by the fact that there is a lack of a broad customer base over which the costs can be spread.

It is the Companies' position that the AG's proposed phase-in plan should be rejected because it is illegal, confiscatory and fiscally unsound. (Companies Initial Brief at 1). The Companies argue the proposal is illegal because in a future proceeding the Commission could revisit the recovery of the postponed revenues that it approved for the Companies. Additionally, the Companies argue that the AG's backward-looking adjustment of rates is equivalent to a refund of revenues previously approved for a prior period and violates the prohibition against retroactive ratemaking. The Companies further contend that the Appellate Court opinions cited by the AG do not support the contention that the Commission has the authority to approve rates that fail to fully recover a public utility's costs to provide service. (Companies Reply Brief at 2). Finally, the Companies argue that the plan will not provide sufficient operating revenues which will virtually assure that investors will be wary of advancing the capital essential to provide adequate service. (*Id.*).

The Companies state that the fact that other UI subsidiaries in Tennessee and Maryland have been ordered to implement phase-in plans does not support the AG's position. The Companies point out that the rate orders in these situations were approving voluntary settlements that unequivocally provide that the settlements are "not to be regarded as precedent in any future proceeding nor deemed to be approval of any ratemaking or tariff principle, cost of service determination or rate design underlying any of the matters resolved," or considered as "binding on any of the [parties] in . . . any other jurisdiction." (Companies Reply Brief at 3). Moreover, the Companies maintain that the full rate increases under these settlements were implemented much more expeditiously. The Companies further point out that in Maryland, 50% of the increase

went into effect within seven months from the filing of the rate case, and the full rates went into effect within 16 months from the date the rate application was filed. In Tennessee, 50% of the increase went into effect in less than nine months after the rate petition was filed and the full increase was effective only 15 months later than the initial increase. (*Id.*). In contrast, the Companies note that new rates in Illinois do not become effective for 11 months. Additionally, under Staff's plan, the rates are capped below cost for three years on top of the 11 month suspension period, and full recovery of the deferred amounts would be delayed for six years. Under the AG's phase-in, rates are capped below cost for as long as five years after the 11 month suspension period, and recovery of the deferred amounts takes as long as 10 years.

The Companies note that they prefer Staff's proposed plan over the AG's because Staff's plan lessens the adverse consequences of phase-in rates. The Companies point out the plan's advantages are that it is voluntary and shortens the shortfall recovery period to six years. (Companies Initial Brief at 6). However, the Companies argue Staff's plan fails to provide the Companies an opportunity to recover their costs. (Companies Reply Brief at 4). The Companies also take issue with Staff's opposition to allowing deferral for later recovery of costs related to administering the phase-in plan and the increased costs of uncollectible expenses that may arise. In addition, the Companies argue the most significant flaw in Staff's phase-in plan is the proposed carrying charge on the deferral amounts. The Companies' disapproval of these aspects of Staff's plan are discussed in further detail in Sections III.C. and IV.A., along with the Companies' proposed modifications.

E. Commission Analysis and Conclusion

The Commission finds that a rate phase-in plan is necessary to address the potential rate shock that Great Northern and Camelot customers may be experiencing due to the increases approved in the Final Order. Unlike the initial proceeding, on rehearing both the AG and Staff provided rate phase-in plans designed to address rate shock. The evidence in the record demonstrates that a rate phase-in plan is the only appropriate rate mitigation tool that can be utilized in this proceeding to address potential rate shock.

Accordingly, the Commission also finds that the phase-in plan proposed by Staff, Rider BSA, is reasonable, supported by the evidence, and should be adopted. Staff's proposed plan properly balances the interests of the ratepayers and the Companies. That plan will gradually increase rates over a relatively short time period to give customers time to adjust their budgets and usage, and it will also compensate the Companies with a reasonable carrying charge for the time value of money during the deferral period. The Commission believes this plan will not violate the Commission's policy of implementing cost based rates since it will fully account for the entire revenue requirement approved in the Final Order and assure that the deferred revenue is recovered with interest. Moreover, the Commission finds that this plan will not deny the Companies an opportunity to recover their costs of providing service but rather will defer recovery of a portion of their costs for a relatively brief period and ultimately allow the Companies to recover the deferred costs in a timely manner. This plan will provide

immediate mitigation of potential rate shock utilizing higher rate caps and a shorter phase-in period than the AG's proposed plan, which will result in lower deferrals over the phase-in period, thereby causing less financial stress on customers when the plan ends and allowing the Companies to recover the deferred costs in a more timely manner. In summary, the Commission finds that Staff's proposed phase-in plan is the best option in the record and it is hereby adopted.

III. Interest on Deferred Amounts

A. AG's Position

The AG argues that if the Commission adopts its proposed phase-in plan and determines a carrying cost is appropriate, the Company's average cost of long-term debt of 6.65% is the maximum reasonable rate that should be applied or a lower rate that is determined by the Commission to be equitable. (AG Initial Brief at 8, AG Ex. at 13). The AG does not object to Staff's proposed rate of 3.20%. (AG Initial Brief at 8). It is the AG's view that in no case should the deferred balance receive a return that incorporates the Companies' higher amount which equals the overall weighted cost of capital, which includes an equity component. (*Id.*). The AG argues there is no reason to include an equity component because the amount at issue will be subject to recovery over a relatively short period of time and is an assured recovery more in the nature of debt.

The AG further argues that the Companies' statements that its proposal is confiscatory because it does not allow the Companies to recover the weighted cost of capital approved in the Final Order is misguided. (Companies Reply Brief at 12). The AG contends that the Companies mistake an authorized return for a guaranteed return. Additionally, the AG asserts that case law states that in a situation like this where the increases are excessive, the Commission can adjust the required return so long as it specifies the basis for the lower return on the deferred balances. Moreover, the AG argues that this is consistent with the United States Supreme Court's pronouncement in the Bluefield Water Works case in which the Court held that a reasonable return is not the highest return, and that there is "no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures." (*Id.*, *Bluefield Water Works*, 262 U.S. 679 (1923)).

The AG also proposes a condition that if either plan is adopted, the deferral balance should be reduced by the related Accumulated Deferred Income Taxes ("ADIT") when calculating the allowable interest rate on the deferral balance. (AG Initial Brief at 8). AG witness Mr. Brosch explained that the phasing-in of revenue increases implies the delayed cash recovery of the Companies' operating expenses. This will result in the incurrence of expenses that are income tax deductible in advance of the year(s) when corresponding taxable revenues will be collected. According to Mr. Brosch, the deferral of operating expenses as part of a phase-in plan will result in ADIT being recorded to recognize the realization of current income tax deductions for expenses prior to the amortization of such deferred expenses on the books. For this

reasons, Mr. Brosch states that the tax deferral cash flow savings from this temporary timing difference should be recognized as a reduction to the deferral amount upon which interest charges are calculated. (AG Ex. 2.0 at 13-14). The AG states that this approach will ensure that the phase-in plan adopted reflects the savings the Companies will realize as a result of the plan and also minimize the deferral balance. (*Id.* at 9).

B. Staff's Position

Staff maintains that should the Commission be inclined to approve its alternative phase-in plan, it should adopt Staff's proposal to base the interest associated with these deferrals on the Companies' average cost of short-term and long-term debt weighted by their respective maturities' proximity to the average period for deferrals (which is three years) or 3.20%. (Staff Initial Brief at 14, Staff Ex. 18.0 REV. at 14-15). Staff also argues that the Commission should reject the Companies' proposal to base that interest rate on its overall cost of capital. (*Id.*).

According to Staff, the Companies' criticism of Staff's proposed carrying charge fails to recognize the key fact that the deferred revenues under Staff's plan are recovered in a different manner than base rates. They have a different level of risk which results in different required rates of return. Staff explains that the recovery of the deferred revenues, which are essentially debt obligations of the customers, is less risky than rate base cost recovery which is subject to sales variability. (Staff Initial Brief at 15).

Further, like the AG, Staff points out that the rate the Companies seek includes an equity component. The Companies presented no evidence that they will use common equity to finance the small, relatively low-risk deferrals that have a relatively short, finite term. Therefore, according to Staff, unless the Companies finance these deferrals in the exact same proportions as their authorized weighted average cost of capital, which was not established on the record, the carrying charge on the deferrals will not equal the Companies' actual financing cost. (*Id.*). Staff posits that any return on the deferrals above the actual cost the Companies incur to finance that asset would be unfair to ratepayers.

Additionally, Staff contends that the Companies' unfounded attack on Staff's expert witness in an attempt to discredit Staff's argument on this issue, is unsupported and must be rejected. First, the Staff witness provided all necessary documentation with supporting analysis to support each and every recommendation made to the Commission. As noted in the record, Staff's interest rate recommendation was developed with the assistance of Staff in the Commission's Finance Department which routinely analyzes and provides rate of return recommendations to the Commission. (Staff Initial Brief at 10, Tr. at 54). Second, Staff points out that cash working capital is recovered through base rates, and as such, is lumped together with much longer lived assets and, as a consequence, gets the same rate of return. This also means that cash working capital, which is recovered through base rates, has a different risk than deferred revenues under a rate mitigation plan. Third, Staff further points out that

contrary to the Companies' assertions, Staff did explain, in detail, both in testimony (with supporting schedules) and during cross-examination, why a weighting of short-term and long-term debt was employed. (*Id.*, Tr. at 63-64).

In sum, Staff asserts that given the relatively short term nature of Staff's plan and the predictability of the resulting cash flows during that period, the Companies would likely use debt with a term to maturity that matches the average period for deferrals, which is three years. Staff explains that because the Companies do not have any three-year debt outstanding, Staff estimated a three-year interest rate by taking a weighted average of the Companies' short-term and long-term debt costs, or 3.20%. (*Id.*, Staff Ex. 18.0 REV. at 14-15 and Schedule 18.2 Supplemental, Tr. at 52-53). Staff notes that it is not opposed to the AG's proposed condition that the deferral amounts should be netted against the related ADIT when calculating the interest charge on the deferral amounts. (Staff Reply Brief at 16).

C. Companies' Position

The Companies argue the interest rates on deferral amounts proposed in the plans devised by the AG and Staff are confiscatory because they do not allow the Companies to recover their reasonable cost of capital, which is 7.71%. The Companies explain that in order to cover the cost of service, the Companies will need to seek investors to advance cash to cover the shortfall generated by the phase-in rates. (Companies Initial Brief at 3). The AG's proposed carrying charge will only compensate investors for the cash working capital provided to fund the shortfall at the below-market rate of 6.65%. The Companies state that Staff's proposed rate is exceptionally troubling because it is implausible that the Companies will be able to attract capital from investors to fund the revenue shortfalls with carrying costs of 3.20% when the undisputed testimony of Staff's rate of return expert in the initial proceeding determined that the cost of capital the Companies' parent, UI, incurs to fund the Companies' investment is 7.71%. (Companies Reply Brief at 4). In addition, the Companies argue that contrary to Staff's assertion, the Companies can not rely on short-term debt to cover the revenue shortfall because they do not issue short-term debt and their only source of funds is from UI.

The Companies also take issue with the fact that Staff did not present a rate of return expert during rehearing. According to the Companies, the Staff witness who testified concerning this issue lacked the qualifications of Staff's rate of return witness and was either unable or unwilling to explain why the cash working capital requirement created by a six year payment cycle should earn drastically less than the deferred cash payments under an ordinary billing cycle which is 45 days. (*Id.* at 8). The Companies assert that the Staff witness also failed to explain why he employed weighting of short-term and long-term debt that radically departed from the weighting used by Staff's rate of return witness. The Companies note that in Staff's rate of return testimony, short-term debt constituted only 6.45% of the capital structure, yet short-term debt under the phase-in plan was given a 91% weighting.

The Companies argue that Staff's proposed interest rate on deferral amounts is also clearly confiscatory because instead of compensating the Companies currently, Staff's plan will deprive the Companies of the time value of money by paying carrying costs of only 3.20%. (*Id.*).

The Companies further argue that Staff's proposed interest rate is substantially below other sources of consumer credit. According to the Companies, these extremely low rates will create a strong incentive for customers to delay payment of current utility expenses and use this exceptionally discounted source of money to pay down higher cost credit card debt, car payments or home mortgages. (Companies Initial Brief at 6).

It is the Companies' position that if the Commission adopts Staff's plan it should be modified to include a 7.71% carrying cost. The Companies note that they do not object to the AG's proposed condition that the deferral amount should be netted against the related ADIT when calculating the interest charge on the deferral amount. The Companies point out that they also used this approach in their schedules. (Companies Ex. 2.0 at 4, Schedule 5 C-W & C-S & GN).

D. Commission Analysis and Conclusion

The Commission concludes that the interest rate to be earned on the deferral balance proposed by Staff of 3.20% is reasonable, supported by the evidence and should be adopted. Contrary to the Companies' argument, the Commission finds that the interest rate on the deferral balance should not be calculated using the Companies' overall cost of capital. It is clear from the record that the deferral balance is, by its nature, most similar to assets financed with debt obligations and is therefore less risky than assets included in rate base which are subject to additional risks such as sales variability. Moreover, the Companies have failed to provide any evidence that they plan to finance the deferrals using common equity despite the Companies' insistence that the Commission apply an interest rate on the deferral balance that includes an equity component. Further, the record clearly demonstrates that given the short term of the approved phase-in plan, the Companies will only need to finance the deferral balance for a relatively short period and in all likelihood the Companies will use short-term debt that will mature in the next three years to finance the deferral balance. The Commission finds that the interest rate proposed by Staff appropriately balances the need to compensate the Companies with a reasonable carrying charge for the delayed recovery of the deferral balance and the need to ensure that the ratepayers are not burdened with paying a rate of return above the Companies' reasonable cost to finance the deferral balance.

The Commission finds that the AG's proposal to reduce the deferral balance by the related ADIT when calculating the carrying charge is reasonable and should be adopted. The Commission concurs with the AG's witness that the phase-in plan should reflect the savings the Companies will realize as a result of the plan and also minimize the deferral balance. The Commission concludes that failure to recognize the Companies' reduced cost would be unfair to ratepayers.

IV. Recovery of Costs Associated with Modifying the Companies' Billing System and Increased Uncollectible Expenses

A. Companies' Position

The Companies maintain that if a phase-in plan is adopted, it should include a mechanism for recovery of costs related to increased uncollectible account expense and to administering the plan, including modifications to the billing system, in the form of a rider or authorization to defer recovery until the next rate case. (Companies Initial Brief at 9).

The Companies contend that a phase-in plan increases both the amount and age of unpaid receivables and will substantially increase the uncollectible account expense that must be recovered in rates. (Companies Initial Brief at 3). The Companies' point out that in the ComEd Rate Stabilization Order, ComEd estimated that as much as 80% of the amounts deferred by participants in its rate mitigation program would be uncollectible. The Companies argue that an automatic adjustment rider, similar to the riders used by ComEd and larger utilities, would lessen the severe impact of the increase uncollectible expense on the Companies because the rider would enable the Companies to recover increases in uncollectible expenses on a more timely basis without filing a traditional rate case. (Companies Initial Brief at 5).

The Companies further argue that any phase-in plan adopted should provide for the recovery of additional spending required to administer the program, including modifications to the billing system to accommodate the capability of offering multiple billing options. The Companies assert that at a minimum, they will incur additional costs for internal personnel and outside consultants to modify the billing system, educate customers about the different billing options and respond to inquiries. (Companies Initial Brief at 4, Companies Ex. 2.0 at 3). The Companies' explain that their billing services are currently provided by two employees who are responsible for 70 small companies in 15 states. A phase-in will necessitate that these two employees allocate a disproportionate amount of their time to the Companies for the implementation and ongoing administration of the unique billing plans. In addition, the Companies argue they will need to use outside consultants to modify the billing system. (*Id.*). The Companies aver that these additional expenses will divert funds needed to pay other costs of providing utility services, or require further rate relief to continue those services.

The Companies maintain that Staff's recommendation that these costs be included in the Companies' next rate case filing should be rejected because it would effectively deny the Companies' ability to recover these costs. The Companies argue that given the recommended amortization of rate case expense, it is expected that the Companies will not file another rate case for five years. (Companies Reply Brief at 4). Under this expected scenario, the start-up costs are likely to occur prior to the next test year. Moreover, any costs and uncollectible expense that would occur in the next test year would arguably be excluded as non-recurring since Staff's phase-in program would be near completion. (*Id.*).

B. Association's Position

The Association contends that the Companies should not be allowed to recover costs associated with modifying the Companies' billing system. (Association Initial Brief at 7). The Association points out that in the Final Order, the Companies were allowed to recover costs associated with the implementation of Project Phoenix which was a project aimed at replacing the Companies' aging information technology infrastructure and greatly enhanced the Companies' accounting capabilities, as well as the Companies' customer care and billing system. (*Id.*). The Association maintains that Camelot residents are already paying for Project Phoenix in the form of dramatically increased water and sewer rates, therefore, they should not be required to pay for additional costs to update the Companies' billing system because the Companies failed to select a billing system capable of performing the necessary functions reasonably expected to arise in a utility context. (*Id.*).

C. AG's Position

The AG argues that the Commission should reject the Companies' proposal that any phase-in plan adopted include recovery mechanisms for the costs associated with increased uncollectibles and modifying the billing system. The AG maintains that the Companies' argument that uncollectible accounts will increase with a phase-in plan is not supported by evidence and is contrary to common experience. (AG Reply Brief at 12). The AG states that a phase-in plan should ease late payments and uncollectibles because customers will have time to adjust their spending (and potentially earning) habits to cover their bills. In addition, customers will have time to make efficiency investments or otherwise limit their usage to control their bills. (*Id.*). The AG also maintains that the Companies did not investigate or offer into evidence any information regarding the costs associated with modifying the billing system. Given this lack of information and the potentially high costs, the AG argues that the Companies should not be permitted to defer or otherwise recover the costs associated with modifying the billing system. (*Id.* at 16).

D. Staff's Position

Staff objects to the Companies' continued assertion that any phase-in plan adopted should include a mechanism for recovery of costs related to increased uncollectible expense, modifying the billing system and administering the plan. (Staff Reply Brief at 13, Companies Initial Brief at 9). Staff argues there is simply no basis for the Commission to address cost issues related to any mitigation program in this proceeding.

Staff notes that the ability to file an automatic adjustment clause tariff for uncollectible expense is granted to electric and gas public utilities by the General Assembly through Sections 16-111.8 and 19-145 of the Act. Staff further notes that recent Appellate Court decisions have severely limited the Commission's discretion in allowing cost recovery through a rider mechanism. (*See generally, Madigan v. Illinois*

Commerce Commission, Opinion, No. 09-0263, App. Ct., 2nd Dist. (March 19, 2012) (ComEd's Rider SMP); *Madigan v. Illinois Commerce Commission*, 958 N.E.2d 405 (2nd Dist. 2011) (PGNS' Rider ICR); *Commonwealth Edison v. Illinois Commerce Commission*, 937 N.E.2d 685 (2nd Dist. 2010) (ComEd's Rider SMP)). Moreover, Staff argues that the Companies' argument that uncollectible expense will increase with a phase-in is misguided. Staff notes that from a purely logical standpoint, lowering utility bills would be expected to decrease uncollectibles, because individuals may find their new utility bills to be more affordable under a phase-in plan. Staff contends that the Companies' reference to ComEd's estimate in the ComEd Rate Stabilization Order that 80% of the amounts deferred by participants in ComEd's rate mitigation program would be uncollectible is irrelevant and inapplicable in this case. Staff points out that the Companies ignore the Commission's findings, which expressly noted that ComEd would incur these uncollectibles even absent a phase-in program. (Staff Reply Brief at 14, ComEd Rate Stabilization Order at 20). Staff also explains that generally, the uncollectibles will probably even out over the years and come close to the amount of uncollectibles in base rates. (Staff Reply Brief at 14).

Staff also argues that the Companies should not be allowed any form of special recovery of costs to modify the billing system and administer a phase-in plan. Staff asserts that to the extent these costs are in the Companies' test year, the Companies should seek their recovery in the next rate case. Staff points out that in the ComEd Rate Stabilization Order, ComEd requested a similar finding regarding its costs for its rate mitigation program and the Commission declined to do so. (*Id.*). Staff argues it is not the Commission's duty to guarantee in this case that mitigation plan costs be recovered in an unknown test year for a future rate case. Rather, the standards that apply to other utility costs should apply to any mitigation plan costs as well. (Staff Initial Brief at 15-16).

E. Commission Analysis and Conclusion

The Commission declines to adopt the Companies' proposal that any phase-in plan adopted should include a mechanism for recovery of costs related to increased uncollectible expense, modifying the billing system and administering the plan, either in the form of a rider or authorization to defer recovery until the next rate case. It is not appropriate for the Commission to consider this topic in this proceeding, particularly on rehearing. Rather, the Companies must comply with the well established rules and standards governing recovery of utility costs and may seek to recover all appropriate costs in their next rate case in which they will have an opportunity to recover from their customers all prudent and reasonable expenses incurred to provide utility service, including mitigation plan costs.

V. Voluntary or Mandatory Participation in Phase-in Plan

A. Staff's Position

Staff recommends that the Commission incorporate an opt-in feature in the event a rate phase-in proposal is adopted. Staff's proposed plan includes an opt-in feature that not only gives customers the ability to opt-in within a 90 day sign-up window, but also the ability to terminate their participation in the plan voluntarily, at any time, with the balance of deferral amounts due immediately. (See Staff Initial Brief, Appendix A, Paragraph # 11, Staff Reply Brief at 12). Staff explains that the opt-in feature gives customers a choice, allowing them to decide for themselves how best to manage their utility costs. Also, because an opt-out feature forces customers to register their unwillingness to participate in the program, some customers, who otherwise are wholly capable of paying their bills in full, may forget to opt-out and be wedged into a plan that forces them to pay interest on accumulating deferred balances. (*Id.*).

Staff urges the Commission to reject the Association's proposal to implement an opt-out method since using an opt-out method will result in a larger customer base but one of lesser quality, because those who do not take prompt action will by default be enrolled in a phase-in program whether or not they intended to enroll. (*Id.*). Staff argues the problem in having a larger but lower quality list of enrollees is that those who were inadvertently enrolled will eventually unsubscribe or complain, or worse, pay interest on deferrals they did not need to or desire to carry in the first place. (*Id.*).

B. AG's Position

The AG recommends that if a phase-in plan is adopted, it should universally apply to all customers in the affected areas, or the Companies should be allowed to incorporate an opt-in mechanism but not permitted to defer or otherwise recover the costs associated with modifying the billing system to allow the Companies to offer multiple billing options. (AG Reply Brief at 16). The AG notes that neither Staff nor the Companies investigated or offered evidence in the record to establish the costs associated with modifying the Companies' billing system to make it elective. (*Id.* at 15). The AG further notes that Staff witness Neyzelman stated that the current billing system is not designed to handle voluntary, individualized phase-in bills but the new software is capable of handling a phase-in plan that applies to all customers. (*Id.* at 16, Tr. at 22-23). The AG also points out that the phase-in plans implemented by two other UI subsidiaries did not include a voluntary component. Additionally, the AG states that Staff models its proposed plan on the optional phase-in plan approved in the ComEd Rate Stabilization Order, however, the situation in this case is much different since customer participation in that phase-in plan was expected to be quite low (approximately 3%) opposed to the predictions in this case of high participation. (AG Initial Brief at 10).

C. Association's Position

The Association concurs with the AG's position that if the Commission adopts a phase-in plan, customer participation should be optional only if the customers incur no additional costs as a result. (Association Reply Brief at 5). The Association maintains that Camelot residents should not, on top of bearing the already extremely high rate increases in both water and sewer, as well as paying for the interest on the deferred balance under the phase-in plan, be forced to finance the Companies' implementation of a phase-in plan that is only necessary because of the rate shock caused by the Companies' mismanagement of the timing of their rate requests. (Companies Reply Brief at 5). According to the Association, this would constitute a windfall for the Companies and would unjustifiably award them for their negligent business practices.

If a voluntary plan is adopted that does not shift the implementation costs to customers, the Association argues the plan should be available on an opt-out basis rather than an opt-in basis. Both proposed plans should have high participation according to the Association given the magnitude of the rate increases, thus, an opt-out mechanism would ensure that as many customers as possible benefit from the phase-in plan. An opt-out mechanism would also permit those who have the funds to opt-out of the plan in order to pay the current rate increases upfront and avoid paying deferral costs to the Companies. (*Id.*).

D. Companies' Position

One of the preferable aspects of Staff's phase-in plan in the Companies' view is that it is elective. (Companies Initial Brief at 6). The Companies argue that an elective plan prevents a customer from being forced to pay higher bills when the revenue deficits are added to future bills and include carrying charges on the deferred balances. Also, to the extent that less than 100% of customers elect to postpone payments, there will be a smaller revenue deficiency. (*Id.*). The Companies acknowledge, however, that they expect high participation in the program, especially if a lower carrying charge than the one they seek is approved. (*Id.*). As previously discussed above in Section IV.A., the Companies argue the Commission should approve a mechanism to authorize the Companies to defer recovery of costs associated with modifying the billing system to allow the Companies to offer multiple billing options.

E. Commission Analysis and Conclusion

The Commission declines to adopt the recommendation by Staff and the Companies that any phase-in plan adopted should be voluntary. The Commission finds that a phase-in plan that applies universally to all customers in the affected areas is the best option based on the evidence in the record. A non-elective phase-in plan is most appropriate in this proceeding because the rate increases approved in the Final Order include the Companies' recovery of costs associated with an initiative to enhance their billing system capabilities, this new billing system is capable of handling a phase-in plan

that applies universally to all of the Companies' customers, and it is very likely that a phase-in plan will have high participation given the magnitude of the approved rate increases. For these reasons, the Commission believes that under these circumstances, the approved phase-in plan should apply universally to all of the Companies' customers and the voluntary feature should not be adopted.

VI. Addressing Mitigation in Future Proceedings

A. AG's Position

The AG proposes that the Commission initiate an investigation into a possible consolidation of UI's Illinois operations, including all operating companies, to determine whether there are rate mitigation possibilities on a company-wide basis ("Consolidation Investigation"). (AG Initial Brief at 3, AG Ex. 3.0 at 5-7). The AG also proposes that UI prepare and file a cost of service study ("COSS") for its entire Illinois operations for review and use in the investigation. (AG Ex. 3.0 at 4-7).

The AG does not object to Staff's proposal to include consideration of a usage tier structure rate design in the investigation. (AG Reply Brief at 12). However, the AG asserts that it is far from clear that an inclining block rate structure will address rate shock. The AG expresses concern with the proposal noting that the size of the initial block would have to be carefully determined to guard against shifting the large increases from small families to large families. (*Id.*). Further, a steeply inclining block rate can discourage consumption at higher levels, but result in higher charges for the initial block to make up for the expected decline in usage at the upper end.

B. Staff's Position

Staff agrees with the AG's proposal that the Commission initiate the Consolidation Investigation. (Staff Initial Brief at 9, Staff Ex. 18.0 REV. at 7). In Staff's view, consolidation would be beneficial because it would: (i) create increased efficiencies, (ii) protect customers against dramatic rate increases, (iii) address small system viability issues, (iv) decrease rate case and administrative expenses due to UI's ability to file single, consolidated rate cases for all of its operations, (v) promote simplicity and overall fairness of the rates, and (vi) eliminate the need to provide costly COSS for small individual rate areas. (*Id.*). Staff also notes that it has proven successful for other water utilities such as Aqua Illinois and Illinois-American Water Company. Staff warns, however, that any consolidation proposal must be weighed carefully to ensure that it is fair to UI customers as a whole.

Staff recommends that the Consolidation Investigation should not review or consider any changes in the revenue requirements established for the Companies in the Final Order. (Staff Initial Brief at 10, Staff Ex. 18.0 REV. at 6-7). Staff also recommends that the Commission include in its investigation consideration of changes in UI's rate design to a usage tier structure in order to encourage water conservation which will reduce customers' bills. The inclining-block structure would target conservation at

peaking and average use within customer classes, and set the tiers so as to give customers more discretion over usage. (*Id.*, Staff Ex. 17.0 REV. at 7-8). According to Staff, rate design changes are relatively easy to implement and they do not take much time based on the evidence provided by the Companies through discovery in this proceeding. (Staff Initial Brief at 7).

Staff also supports the AG's additional recommendation that the Commission direct UI to prepare and file a COSS. (*Id.* at 10). Staff argues a COSS would facilitate the Commission's ability to set cost-based rates in the event of a future consolidation. (*Id.*, Staff Ex. 18.0 REV. at 4-6).

C. Association's Position

The Association also concurs with the AG's proposals that the Commission initiate the Consolidation Investigation and direct UI to file an appropriate COSS. (Association Initial Brief at 10). The Association argues that the *ad hoc* nature of the recent rate increase requests by UI's subsidiaries, coupled with the inordinately high rate increases requested after a substantial period of years and the rash of rate cases filed by such subsidiaries over the last several years, demonstrates the need for an investigation into possible consolidation. Moreover, the Association maintains that this is possibly the best time to explore this option in light of the very recent acquisition of UI by Corix Utilities.

D. Companies' Position

The Companies' witness Neyzelman did not oppose the AG's proposal that the Commission initiate the Consolidation Investigation and testified that the "Companies will look at the possibility of consolidating certain Illinois subdivisions in the future." (Companies Ex. 2.0 at 5).

The Companies are opposed to Staff's proposal to include consideration of rate design changes in the Consolidation Investigation. (*Id.*). According to the Companies, Staff's proposal to explore a usage tier structure rate design is practically a proposal for the Companies to perform a COSS for each future rate case which is extremely expensive. The estimates provided would only include the outside costs and not costs incurred internally. Also, it would not be beneficial for these small utilities, which have a homogeneous customer base, to invest in a COSS. (*Id.*).

E. Commission Analysis and Conclusion

The AG proposes that the Commission initiate the Consolidation Investigation and order UI to prepare and file a COSS for its entire Illinois operations for review and use in the investigation. The evidence in the record suggests that consolidation may possibly address bill impacts on a going-forward basis by: (i) creating efficiencies and economies of scale, (ii) decreasing rate case and administrative expenses by allowing UI to file single, consolidated rate cases, (iii) eliminating the need for each subsidiary to

provide costly COSS, and (iv) addressing the challenges faced by UI in attempting to mitigate rates due to its small systems that lack a large customer base over which to spread increases and a homogeneous class of customers which prevents UI from moving costs to other customer classes. The Commission believes, however, that the record is not clear whether consolidating all of UI's operations would be more beneficial than consolidating a small number of them. Accordingly, the Commission is concerned that requiring UI to prepare and file a COSS for its entire Illinois operations may be premature and result in UI incurring costs that are not beneficial.

The Commission understands that the Companies are willing to consider the possibility of consolidating certain Illinois operations in the future. Rather than order a formal investigation and requiring the parties to incur the associated costs, the Commission believes it would be better to direct the parties to work together informally to consider the potential benefits of consolidation. Only after a decision is made regarding the appropriate extent of consolidation does the Commission believe it would be appropriate to undertake a COSS for the consolidated operations. The Commission remains concerned about the number and magnitude of UI's recent rate increase requests. As a result, in the event that Staff decides that the informal workshop is not making adequate progress toward determining the appropriate consolidation of UI's operations within the next 12 months, the Commission directs Staff to prepare an order that would allow the Commission to initiate a formal investigation regarding consolidation.

Additionally, while the Commission finds Staff's proposal to include consideration of a usage tier structure rate design to be reasonable, it is not clear how, if at all, such a rate structure relates directly to consolidation of UI's operations. The Commission is more than willing to consider a tiered usage rate structure in future rate cases; however, given that the Commission has concluded that a formal investigation is not necessary, it declines to adopt this additional recommendation by Staff.

VII. Findings and Ordering Paragraphs

The Commission, having considered the entire record, is of the opinion and finds that:

- (1) Great Northern, Camelot, and Lake Holiday provide water or water and sewer service to the public within the State of Illinois and, as such, are public utilities within the meaning of the Act;
- (2) the Commission has jurisdiction over the Companies and the subject-matter herein;
- (3) the recitals of fact and conclusions reached in the prefatory portion of this Order are supported by the evidence and are hereby adopted as findings of fact;

- (4) the rate phase-in plan proposed by Staff, Rider BSA, as modified to reflect the findings herein, is just and reasonable;
- (5) Rider BSA is adopted, as modified and the Companies are authorized to file and place into effect tariff sheets implementing Rider BSA, as modified;
- (6) the new tariff sheets authorized to be filed by this Order, should be filed within ten business days of service of this Order and should reflect an effective date of not less than five business days after the date of filing, with tariff sheets to be corrected, if necessary, within that time period;
- (7) the parties shall commence within 60 days of service of this Order a series of workshops of all interested parties to determine the potential benefits and scope of a possible consolidation of at least some of UI's Illinois operations as well as the potential costs and benefits of a COSS for the operations selected for possible consolidation;
- (8) the Companies shall otherwise perform all actions that this Order requires of them; and
- (9) all remaining motions, petitions, objections, or other matters in this proceeding should be disposed of in a manner consistent with the conclusions reached herein.

IT IS THEREFORE ORDERED by the Illinois Commerce Commission that Great Northern Utilities, Inc. and Camelot Utilities, Inc. are authorized and directed to make a compliance filing implementing the rate phase-in plan proposed by Staff of the Illinois Commerce Commission, Rider BSA, consistent with the conclusions contained in this Order. Such compliance filing is to be made within ten business days of service of this Order and new tariff sheets authorized to be filed by this Order shall reflect an effective date of not less than five business days after the date of filing, with the tariff sheets to be corrected, if necessary, within that time period.

IT IS FURTHER ORDERED by the Illinois Commerce Commission that an informal investigation into a possible consolidation of at least some of Utilities, Inc.'s Illinois operations shall commence within 60 days of service of this Order and such investigation shall begin with a series of workshops of all interested parties.

IT IS FURTHER ORDERED that any motions, petitions or objections made in this proceeding, and not otherwise specifically disposed of herein, are hereby disposed of in a manner consistent with the conclusions contained herein.

IT IS FURTHER ORDERED that, subject to the provisions of Section 10-113 of the Public Utilities Act and 83 Ill. Adm. Code 200.880, this Order is final; it is not subject to the Administrative Review Law.

DATED:	April 13, 2012
BRIEFS ON EXCEPTIONS DUE:	April 23, 2012
REPLY BRIEFS ON EXCEPTIONS DUE:	WAIVED BY THE PARTIES

Sonya J. Teague
Administrative Law Judge